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October 27, 2006

VIA ELECTRONIC SUBMISSION
Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

Re: **WC Docket No. 01-92, Developing a Unified Intercarrier Compensation Regime**

Dear Ms. Dortch:

On October 26 and 27th, 2006, representatives from BellSouth Corporation, Embarq Corporation, Level 3 Communications, LLC, Madison River Communications Corporation, the Rural Alliance, Windstream Corporation, and AT&T Inc. -- on behalf of the supporters of the Missoula Plan -- met with Wireline Competition Bureau staff from the Bureau front office, the Pricing Policy Division, the Telecommunications Access Policy Division, and the Competition Policy Division. At the meeting, the supporters described the need to adopt the Missoula Plan and explained details of the Plan consistent with filings already in this docket. The attached presentations served as the basis for the discussion.

Sincerely,

/s/Eric Einhorn (for the Missoula Plan Supporters)
Executive Director
AT&T Services, Inc.

Attachments

cc: Don Stockdale
Al Lewis
Jennifer McKee
Vicki Robinson
Bill Kehoe

Missoula Plan
Intercarrier Compensation Reform

Interconnection & Intercarrier Compensation Frameworks

FCC Meetings

October 26th – 27th, 2006

Goals for Interconnection & Intercarrier Compensation

- **Promote carrier negotiations and reduce incentives for arbitration**
  - Generic default rules were established
  - Carriers are free to negotiate mutually agreeable alternative to the default rules
  - Default rules were structured to reduce likelihood a carrier could unfairly leverage its position
  - Default rules provide clear outcome if negotiations fail
- **Mitigate regulatory induced arbitrage**
- **Resolve long-standing and intractable industry disputes**
- **Equalize differences between carrier networks**
- **Minimize rearrangement of existing networks, but accommodate technology changes**
- **Strike a balance between competing public policy goals of different industry segments, e.g., wireline, wireless, VoIP, rural vs. non-rural, wholesale vs. retail**

Interconnecting Carrier Networks

The Edge Architecture

Edge Criteria

- **Missoula Plan's default interconnection rules use an *Edge* architecture to establish how telecommunications carriers will share the cost of linking their networks for exchange of *non-access* traffic**
- **An *Edge* is a location on the terminating carrier's network where it receives traffic to perform the termination function**
  - Terminating carrier designates its Edge locations
  - An Edge is generally the demarcation point where a carrier's interconnection obligation to transport its originating traffic ends
- **Edge locations must perform at least one of the following network functions**
  - End Office
  - Access Tandem
  - Mobile Switching Center (MSC)
  - Point of Presence (POP)
  - Trunking Media Gateway
- **To be designated an Edge, a network location must satisfy the following additional requirements**
  - Physical interconnection must be available
  - Direct and indirect interconnection must be available
  - All types of traffic must be terminated
  - Number portability must be available from the interconnecting carrier upon request, except where suspension has been obtained

Eligible Network Edge Locations

LEC
End Office

LEC
Access
Tandem

LEC
End Office

EDGE

EDGE

Switch

POP

LATA
Boundary

EDGE

EDGE

IP
Carrier
Network

Trunking
Media
Gateway

MSC

EDGE

EDGE

Edge Designation Rules

- **A carrier must designate at least one edge in each LATA in which it receives traffic from other carriers**
  - A carrier must identify relevant call routing information with its appropriate Edge, e.g., NPA-NXX, LRN, CIC, etc.
  - Carriers must route traffic to the appropriate Edge designated by the terminating carrier
- **Any location that meets the Edge criteria described above is "eligible" to be designated an Edge**
  - Where a Track 1 carrier's End Offices subtend its own Access Tandem, the Edge must be an Access Tandem location and these End Offices are not eligible to be an Edge
  - Track 2 and 3 carriers may declare any eligible End Office to be an Edge even if it subtends the carrier's own access tandem
- **A carrier must provide reasonable advance notice of relocation, elimination, or addition of Edges**
- **A carrier may designate another carrier's facilities within the LATA as its Edge with the agreement of the Edge owner and so long as the other carrier's facilities satisfy the Edge criteria and Edge designation rules**

Benefits of an Edge Architecture

- **Edge architecture provides comparability between different network technologies and topologies**
- **Each carrier bears a fair share of the transport to interconnect (link) its network with other carrier networks**

LATA Boundary

EDGE

ILEC Access Tandem

EDGE

CLEC E.O.

EDGE

MSC

ILEC Collo.

ILEC E.O.

ILEC E.O.

ILEC E.O.

ILEC Network

CLEC Network

Wireless Network

LATA Boundary

Interconnecting Carrier Networks

Interconnection Framework and Obligations

General Interconnection Framework

- **Interconnection refers to the linking of carrier networks for the exchange of traffic**
- ***Transport* is used to interconnect (link) carrier networks**
- **The carrier with the financial obligation for interconnection decides whether it will interconnect directly or an indirect interconnection arrangement**
- **A carrier must permit other carriers with the financial obligation for interconnection to physically interconnect at its Edges – physical interconnection must also be provided to tandem transit carriers**
  - Carrier requesting interconnection must be the carrier whose network will be directly interconnected, or indirectly interconnected with the providing carrier
  - Carrier will be provided with interconnection regardless of type of services it offers: retail, wholesale or both
  - Each carrier, and each communications service provider served by a carrier, will:
    - ✓ collaborate to complete calls that originate or terminate on the PSTN and will not block the exchange of traffic
    - ✓ provide full portability of numbers assigned to end users of a communications service provider
    - ✓ offer interconnection to carriers that comply with these obligations

Interconnection Obligations

- **General Interconnection Rule: Each carrier has a financial obligation to *transport* its originating non-access traffic to the terminating carrier's Edge**
  - *Transport* refers to the transmission facilities a carrier requires to physically connect its network with the terminating carrier's network
  - Transport exceptions exist for out of balance traffic
- **The Rural Transport Rule governs interconnection for the exchange of traffic between a Track 1 carrier and Track 2 or 3 carriers**
  - The General Interconnection Rule is adjusted to reflect the characteristics of Track 2 and 3 carrier networks
  - The Rural Transport Rule strikes a balance between competing public policy goals where every carrier should share an equivalent transport obligation vs. managing the size of the Restructure Mechanism
- **A carrier may satisfy its financial obligations for transport by utilizing the following options:**
  - Construct its own facilities
  - Obtain facilities from a third-party carrier
  - Purchase transport services from the terminating carrier

General Interconnection Rule

Carrier with the financial duty for interconnection chooses direct vs. indirect interconnection

Transit Tandem

Indirect Interconnection

EDGE

Originating Carrier

Terminating Carrier

Direct Interconnection

Originating carrier's financial duty to transport traffic

Throughout this presentation arrowheads indicate call direction and network components of the same color comprise the same network

Interconnecting Carrier Networks

Rural Transport Rule

Rural Transport Rule

- **When a Track 1 carrier interconnects with a Track 2 or 3 carrier, the General Interconnection Rule requires the Track 1 carrier to transport its non-access traffic to the other carrier's Edge**

- **Under the Rural Transport Rule, the financial obligation for transporting non-access traffic originated by a Track 2 or 3 carrier is shared with the interconnecting Track 1 carrier**

- **The Track 1 carrier has the obligation to establish the interconnection arrangement for non-access traffic originated by a Track 2 or 3 carrier and will decide whether interconnection will be direct or indirect**
  - If it elects to interconnect *indirectly* with a Track 2 or 3 carrier, the Track 1 carrier will have the financial obligation for the Tandem Transit Service
  - If the Track 1 carrier elects to interconnect *directly*, the Track 2 or 3 carrier will have a financial obligation for transport as follows:
    - ✓ The *Full* Rural Transport Rule requires a Track 2 carrier to transport its originating non-access traffic to the meet point it shares with a Track 1 carrier
    - ✓ The *Modified* Rural Transport Rule requires a Track 3 carrier to transport its originating non-access traffic a distance not to exceed 10 miles beyond the meet point it shares with a Track 1 carrier
    - ✓ The Track 1 carrier has the remaining financial obligation for the transport to deliver non-access traffic originated by a Track 2 or 3 carrier to its Edge for termination

- **Track 2 carriers will follow the *full* Rural Transport Rule**

- **Track 3 carriers will follow the *modified* Rural Transport Rule**

Rural Transport Rule

Track 2 or 3 carrier's
financial duty for transport

Indirect Interconnection

EDGE

Meet Point

Originating
Track 2 or 3
Carrier

Transit
Tandem

Terminating
Track 1
E.O.

Track 1 carrier's financial
duty for transport

Full Rural Transport Rule

Direct Interconnection

Track 2 carrier's
financial duty for transport

EDGE

Meet Point

Originating
Track 2
Carrier

Terminating
Track 1
E.O.

Track 1 carrier's financial
duty for transport

Modified Rural Transport Rule

Direct Interconnection

Track 3 carrier's
financial duty for transport

EDGE

Meet Point

Originating
Track 3
Carrier

Terminating
Track 1
E.O.

≤ 10 Miles

Track 1 carrier's financial
duty for transport

Interconnecting Carrier Networks

Tandem Transit Service

Tandem Transit Service

- **Tandem Transit Service is a third party provided tandem switched transport service used to indirectly interconnect with the terminating carrier's Edge**
  - Tandem Transit Service is comprised of tandem switching and the common transport to reach a Track 1 carrier's Edge or the meet point shared with a Track 2 or 3 carrier
- **Under the Missoula Plan, existing transit service providers must continue to provide Tandem Transit Service**
- **The Missoula Plan establishes the rights and obligations of Tandem Transit Service providers and the carriers that purchase this service**
- **Tandem Transit Service is provided at a nationwide capped rate of $0.0025 per MOU**
  - Tandem Transit Service providers are not allowed to geographically deaverage the nationwide rate
  - Rate cap is removed at Step 4 for transit routes that are within an MSA, otherwise the cap remains in place but increases by inflation beginning at Step 5
  - Tandem Transit Service providers will furnish call detail records at no additional charge
  - Track 2 carriers may argue for a higher Tandem Transit Service Rate
- **Premium transit services that may be offered are not covered by the nationwide rate cap**

Tandem Transit Service Architecture

The Ordering Carrier has the financial duty to transport its traffic to the transit tandem

Tandem Transit Service

EDGE

ORDERING CARRIER

TRANSIT TANDEM

NON-ORDERING CARRIER

Common Transport

Tandem Switching

Interconnecting Carrier Networks

Comprehensive Solution for Phantom Traffic

Missoula Plan Solution for Phantom Traffic

- **Recommends adoption of a comprehensive solution for phantom traffic**
- **Establishes call signaling rules that apply to all communications service providers and traffic identification obligations to help expeditiously resolve disputes**
  - With certain exceptions, every originating communications service provider must transmit telephone number of the calling party to intermediate and terminating carriers
  - With certain exceptions, every intermediate communications service provider must transmit without alteration the telephone number information it receives from another provider
  - When a provider's switch is equipped with SS7, it shall utilize SS7 when interconnecting directly with another provider's switch that is equipped with SS7
- **Recommends an FCC enforcement structure designed to promote the timely review and resolution of phantom traffic disputes**
- **Proposes an *industry-driven* uniform process for the creation and exchange of call detail records that will be provided at no additional charge – a forthcoming filing will:**
  - Recommend Category 11-01-XX call detail records as industry standard
  - Identify the carriers that should create and distribute call detail records
- **Recommends an interim order, pending adoption of comprehensive intercarrier compensation reform, that will:**
  - Implement the call signaling rules and enforcement structure
  - Establish an interim process that requires the creation and exchange of call summary information and, in certain circumstances, charges for the provision of call detail records

Intercarrier Compensation

Payments for the Use of Another Carrier's Network

Intercarrier Compensation Framework

- **Intercarrier compensation under the Missoula Plan covers the following types of carrier-to-carrier charges.**
  - Rates a terminating carrier charges when another carrier purchases the terminating carrier's transport services to directly interconnect in accordance with its interconnection obligations
  - Rates a Tandem Transit Service provider charges so other carriers can indirectly interconnect
  - Rates a terminating carrier charges for the termination of another carrier's non-access traffic
- **The Missoula Plan utilizes calling and called telephone numbers to determine when traffic should be subject to switched access charges or reciprocal compensation charges**
- **Charges for transport services purchased to directly interconnect are either flat-rated or usage-based as follows**
  - Charges for dedicated transport, i.e., a transport service that only carries traffic between the two carriers, will be flat-rated
  - Charges for common transport, i.e., tandem switching and transport service that carries traffic exchanged between more than two carriers, will be usage-based
- **Termination is the acceptance of non-access traffic by a terminating carrier at its Edge and the delivery of the traffic to the called party**
  - Termination charges are usage-based
  - Termination charges cover any transport (dedicated transport, tandem switching and common transport) and end office switching a terminating carrier uses to deliver traffic from its Edge to the called party

Telephone Numbers Approach to Categorizing Traffic

- **Calling and called telephone numbers are used to determine whether traffic should be categorized as access traffic or non-access traffic**
  - The *calling telephone number* refers to the telephone number assigned to the end user that originates the call (not a PRI line)
  - The called telephone number refers to the telephone number dialed by the end user that originated the call
- **Wireline-to-wireline traffic generally will be treated as access if the calling and called telephone numbers are associated with rate centers that are in different reciprocal compensation local calling areas**
- **Wireless-to-wireline traffic generally will be treated as access traffic if:**
  - The wireless carrier routes its traffic to an IXC that terminates the traffic using a switched access service
  - The calling and called telephone number are associated with different rate centers in different MTAs
  - Other traffic will be treated as reciprocal compensation traffic
- **Wireline-to-wireless traffic generally will be treated as reciprocal compensation if the calling and called telephone numbers are within the MTA and are in:**
  - The same rate center
  - Rate centers covered by an EAS agreement *or*
  - Different rate centers within an MTA, and the LEC is the retail toll service provider
- **CMRS carriers will be entitled to charge IXCs $0.0007/MOU for termination beginning at Step 2 of the Plan**

Track 1 Transport & Termination Charges

EDGE

Called Party

Termination by a "Flat" Track 1 Carrier Network"

Originating
Carrier

Terminating.
Track 1
E.O.

Termination Charge

Dedicated
Transport Charge

EDGE

Called Party

Termination by a "Tandem-Based" Track 1 Carrier Network

Originating
Carrier

Term.
Track 1
Access Tandem

Terminating
Track 1
E.O.

Termination Charge

Track 2 and 3 Transport & Termination Charges

EDGE

Meet Point

Originating Carrier

Term. Track 2 Tandem Switch

Terminating Track 2 E.O.

Called Party

Termination Charge

Common Transport Charge

EDGE

Meet Point

Originating Carrier

Terminating Track 3 E.O.

Called Party

Termination Charge

Dedicated Transport Charge

Out-of-Balance Traffic Safeguards

- **The Missoula Plan contains several out-of-balance safeguards that operate as exceptions to the interconnection and intercarrier compensation frameworks for non-access traffic**
  - Out-of-balance traffic is all non-access traffic exchanged between two carriers that exceeds a 3:1 termination-to-origination ratio
- **Track 1-to-Track 1 Transport Safeguard**
  - The carrier terminating the larger amount of traffic will have the financial obligation for *all* transport between the Edges to interconnect the two carriers
- **Out-of-Balance Traffic Safeguard**
  - Applies where the terminating Track 2 or Track 3 carrier charges higher reciprocal compensation rates than the originating carrier
  - Terminating transport charges will not apply to the out-of-balance traffic
  - The termination charge will be the lower of the currently effective termination charge or $0.0007/MOU
- **There is a complementary set of rules that deal with compensation for ISP-bound traffic**
  - For Track 1 and 2 carriers, the FCC's ISP-bound framework will be eliminated at Step 3 of the Plan
  - The ISP-bound framework will remain in place for Track 3 carriers, except that the rate will be $0.0005/MOU at Step 4

The Missoula Plan
Intercarrier Compensation Reform:

Rate Rebalancing/Restructure Mechanism/Universal Service
FCC Meetings
October 26th – 27th, 2006

NARUC Task Force on Intercarrier Compensation

- **April 2003 – NARUC forms Task Force on Intercarrier Compensation – draws widespread participation from all industry segments**
- **NARUC Task Force conducts twelve workshops between July 2004 and January 2006**
- **4th quarter 2005 – NARUC Task Force asks for industry-driven plan**
- **March 2006 – Industry sub-group delivers *Missoula Plan* to NARUC Task Force**
- **April 21, 2006 – Industry participants "vote" on whether to support Missoula Plan**
- **Plan supporters develop additional Plan details and conduct outreach to broaden support**
- **Details of comprehensive Missoula Plan submitted to NARUC Task Force**
- **July 24, 2006 – NARUC files Missoula Plan with FCC**
- **July 25, 2006 – FCC seeks comment on Missoula Intercarrier Compensation Reform Plan**

Missoula Plan Supporters

Epic Touch **Global Crossing**

Level 3 Communications **Windstream** **Iowa Telecom**

The Rural Alliance (325+ rural telephone companies)

AT&T **Embarq** **Madison River Communications**

Consolidated Communications **BellSouth**

Commonwealth Telephone Co. **Cingular Wireless**

Why the Plan is Good for Consumers and the Industry

- **The Nation needs a path to a new regulatory regime to replace today's broken, antiquated intercarrier compensation system. The replacement should support *today's* networks but also support the transition to *tomorrow's* multi-modal telecommunications systems**
- **If fully adopted, the Plan would establish the path, providing long overdue stability to the telecom market, giving customers of all technologies in all service areas the benefits of that stability: *investments in broadband infrastructure and services they demand available at affordable prices***
- **A fully funded Restructure Mechanism will enhance universal service and provide long-term sustainability for rural areas that does not exist today**
- **Creates a structure for a balanced transition from the circuit switched world to a broadband/VoIP world**
- **Minimizes or eliminates distinctions between types of traffic, e.g., local, access, wireless, ISP-bound, VoIP) by unifying rates wherever possible and thus reduces regulatory-induced arbitrage**
- **Significantly reduces disputes and litigation at the state and federal levels**
- **Establishes an interconnection framework that balances the financial responsibilities among carriers and technologies**
- **Creates comprehensive phantom traffic solution, further reducing arbitrage**
- **Recognizes states that proactively take/have taken action to reduce or unify intercarrier rates**

Missoula Plan Will Increase Consumer Welfare

- **AT&T Study Shows:**

  - ✓ **The Plan could produce a total economic benefit of more than $50 billion within a eight-year time horizon and could create more than 18,000 new jobs.**

  - ✓ **Consumer welfare and efficiency are improved when price structures are reformed to correspond more closely to the technological changes and increased customer choice.**

  - ✓ **Because demand for telephone lines is less elastic than demand for toll minutes, the Plan will increase wireline consumer welfare by reducing current level of per-minute access charges and replacing any associated revenue losses with increases in flat per-month charges.**

  - ✓ **The Plan will benefit wireless consumers. The prices that customers pay for wireless service will fall because of the reductions in access charges and reciprocal compensation rates offered by the Missoula Plan.**

Missoula Plan Overview

- **Six year plan unifies intercarrier charges for majority of nation's lines and moves *all intercarrier rates for all traffic* closer together**
- **Some parts of the Plan are discretionary for States, all others are mandatory**
- **Tailors reform based on three categories of carrier, or *Tracks***
- **Provides alternative sources for recovery through federal SLC increases and a new Restructure Mechanism**
- **Establishes uniform default interconnection rules**
- **Addresses phantom traffic and other intractable industry disputes such as VoIP-to-PSTN compensation, Virtual FX and IntraMTA wireless compensation**
- **Requires NPRMs at Steps 4 and 6 to determine whether additional reform is appropriate**
- **Provides additional funding to: insulate Lifeline customers from SLC increases; establish an Early Adopter Fund; and increase certain high cost funding**
- **Creates an incentive regulation option for qualifying rate of return ILECs**

Carrier Categories

- **Missoula Plan creates three carrier categories or *Tracks* – reform tailored for each Track**

  As a result of discussions with the industry and state commissions, to broaden support for the Plan, and to clarify and simplify the Plan, the Plan Supporters amend the track definitions as follows:

  - **Track 1 carrier category**
    - All RBOC owned ILECs; non-rural ILEC study areas of greater than 600K loops; and all non-ILEC carriers, e.g., CMRS, CLEC and IXC carriers
    - Comprises approximately 89 study areas and 143.5M ILEC lines
  - **Track 2 carrier category**
    - Non-rural ILEC study areas with no more than 600K loops; rural ILEC study areas under interstate price-cap regulation
    - Comprises approximately 103 study areas and 11.6M ILEC lines
  - **Track 3 carrier category**
    - Rural ILEC study areas under interstate rate-of-return regulation
    - Comprises approximately 1,243 study areas and 10.9M ILEC lines
  - **Eliminate CRTC definition recommended in original Missoula Plan**

Intercarrier Compensation Reform “Dials”

- Intercarrier Compensation Charges
- Subscriber Line Charges
- Restructure Mechanism

Intercarrier Compensation Transition

	Termination Charges		Origination Charges
	Reciprocal Compensation	**Terminating Access**	**Originating Access**
Track 1	**Step 3:** *Termination* charges for all traffic unify at \$0.0007. *Transport* charges for dedicated transport unify at interstate direct trunk transport rate levels. **Step 4:** *Termination* charge decreases to \$0.0005.		**Step 4:** Charges unify as follows: ➢ \$0.002 for end office switching; ➢ \$0.0025 for tandem switched transport; ➢ Interstate direct trunk transport rate levels for dedicated transport. *Or*, carriers may eliminate originating access.
Track 2	**Step 3:** *Termination* charges for all traffic unify at \$0.0005. *Transport* charges for tandem switched transport unify at: ➢ \$0.0075 (or \$0.0097 when originating is eliminated); ➢ Interstate direct trunk transport rate levels for dedicated transport.		**Step 4:** Charges unify as follows: ➢ \$0.002 for end office switching and \$0.0075 for tandem switched transport in price cap or incentive regulation study areas; ➢ Interstate direct trunk transport rate levels for dedicated switched transport. *Or*, carriers may eliminate originating access.
Track 3	**Step 1:** *Transport* and *Termination* rates capped at interstate access levels. Existing EAS arrangements with other ILECs continue unchanged.	**Step 4:** Intrastate access charges unify at interstate access rate levels.	**Step 4:** Intrastate access charges unify at interstate access rate levels.

Missoula Plan Replaces the Broken System

Average Rates in Cents per Minute

6.0

Small ILEC Intrastate (5.1)

5.0

CLEC Interstate (0.6)

CLEC Intrastate (3.0)

4.0

Large ILEC
Intrastate (2.5)

3.0

Small ILEC
Interstate (1.8)

Recip Comp
Voice (0.2)

CMRS – ILEC
InterMTA (0.6)

2.0

Large ILEC
Interstate
(0.6)

Recip Comp
ISP (0.1)

CMRS – ILEC
IntraMTA (0.2)

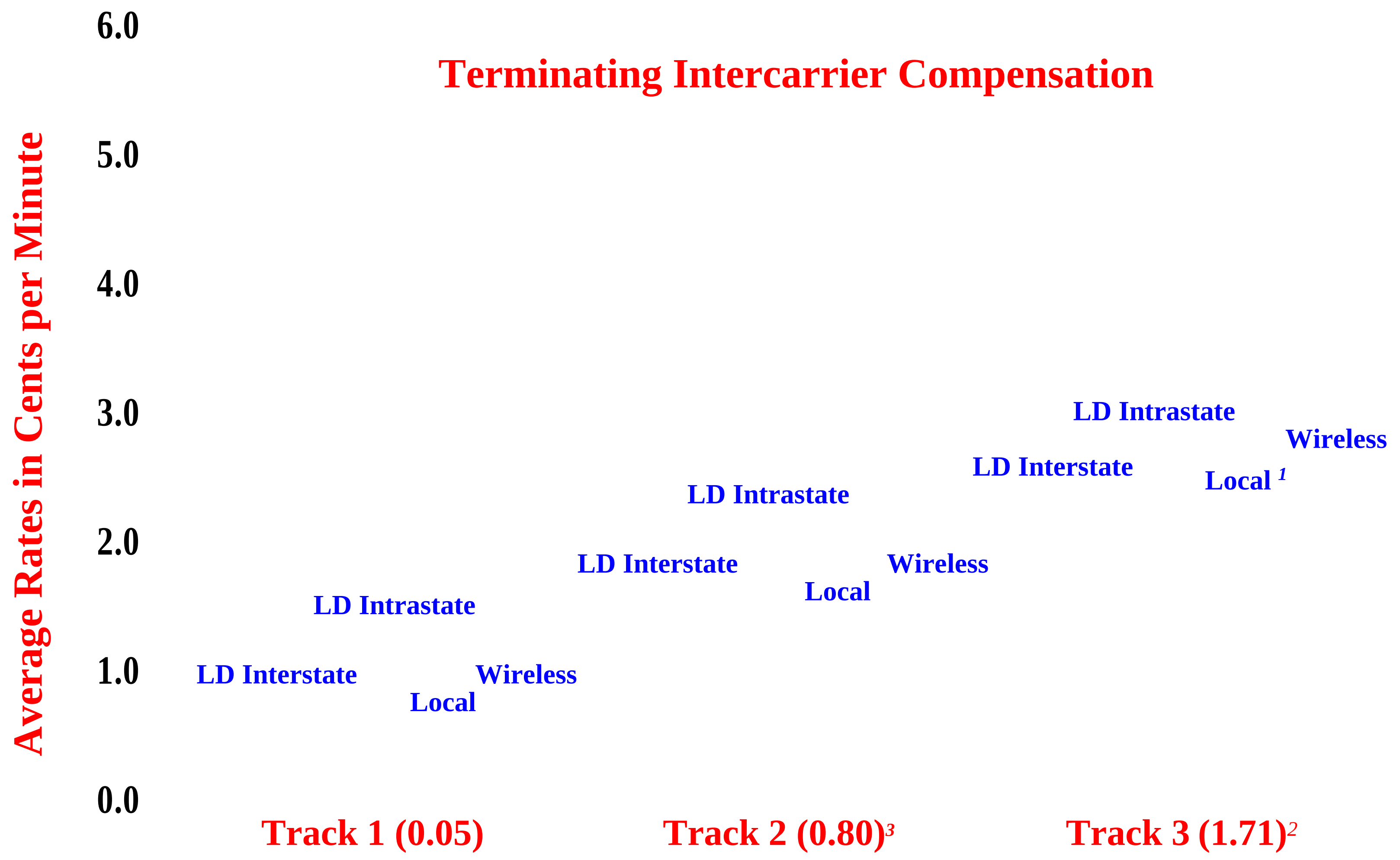
1.0

0.0

Long Distance Calls (Access) | Local Calls | Wireless Calls

	Long Distance Calls (Access)						Local Calls		Wireless Calls	
High (¢/min):	1.5	8.9	9.9	34.9	6.8	35.9	0.3	0.1	8.9	0.3
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0

Missoula Plan Intercarrier Compensation Solution



1. Compensation for EAS traffic remains under existing arrangements.
2. Reciprocal compensation rates capped at interstate access rate levels. Access traffic capped at interstate access rate levels. Reflects average interstate rates for Track 3 carriers for illustrative purposes. Actual rates may vary by carrier.
3. Assumes end office switching rate of 0.05 (same as Track 1 rate) and 0.75 for common transport and tandem switching.

Computing the Restructure Mechanism

Price-Cap Carriers Access Shift

- An access shift per line amount is established as one of the several pricing constraints for price-cap carriers.
- The "access shift" equals the total amount of revenue to be recovered from SLC and Restructure Mechanism; it includes revenue reductions from access rate reductions*****

Rate-of-Return Carriers Revenue Requirements Change*

- Intrastate revenues under the existing system plus forecasted interstate revenues
- Less revenues permitted under the plan

Restructure Mechanism Computation

- At each step, the access shift, or revenue requirement change is:
  - First recovered from the SLC, imputed to the maximum allowable level under the Plan
  - Any residual recovery needed is provided by the Restructure Mechanism

- At Step 4 of the Plan, the carrier may recover — through SLC increases and the Restructure Mechanism
  - 100 percent of the access shift per line for price-cap carriers
  - The full revenue requirement change for rate-of-return carriers

- Transition Steps 1 through 3
  - Price-cap carriers may recover (for each line) a smaller, but increasing, percentage of its shift per line.
  - Rate-of-return carriers will compute a revenue requirement change for each step, with a true-up

***** Note: This revenue will include more than access reductions. For example, carriers may include additional amounts associated with changes to EAS compensation.

Restructure Mechanism (cont.)

The following rules apply to all carriers:

- **Carriers will have flexibility to impose SLC rates below the maximum rates permitted under the Plan.**
- **But a carrier's recovery from the Restructure Mechanism will be calculated as though the carrier has raised its SLC rates to the highest levels permitted under the Plan.**
- **SLC rates for Lifeline customers will not increase under the Plan.**
- **Instead, carriers will recover from the Lifeline program any amount that they would otherwise collect from those customers through SLC increases.**
- **A carrier's recovery from the Restructure Mechanism will be calculated separately for each study area.**

SLC Pricing Constraints

- **As intercarrier compensation rates are reduced, carriers will have an opportunity to recover resulting lost revenues through SLC cap increases**
  - Track 1 SLC caps increase to $10.00 over 4 steps
    - **Pricing Constraint No. 1:** No residential or single line business SLC may exceed the nationwide SLC Cap of $7.25 at Step 1, $8.00 at Step 2, $9.00 at Step 3 and $10.00 at Step 4. Multi-line business SLCs may not exceed $9.20 at Steps 1 – 3 and $10.00 at Step 4.
    - **Pricing Constraint No. 2:** Individual residential and single-line business SLC rates may increase by no more than $0.95 at Step 1, $1.90 at Step 2, $3.10 at Step 3 and $4.30 at Step 4.
    - **Pricing Constraint No. 3:** Average SLC rate may increase by no more than lower of the revenue shift or $0.75 at Step 1, $1.50 at Step 2, $2.50 at Step 3 and $3.50 at Step 4.
    - Beginning at Step 5, the SLC cap rises with inflation each year.
  - Track 2 residential & single line business SLC caps increase to $8.75 over 3 steps – MLB increases to $10.00 at Step 3
    - **Pricing Constraint No. 1:** No residential or single line business SLC may exceed the nationwide SLC Cap of $7.25 at Step 1, $8.00 at Step 2, and $8.75 at Step 3. Multi-line business SLCs may not exceed $9.20 at Steps 1 and 2, and $10.00 at Step 3.
    - **Pricing Constraint No. 3:** Average SLC rate may increase by no more than lower of the revenue shift or $0.75 at Step 1, $1.50 at Step 2, and $2.25 at Step 3.
  - Track 3 residential & single line business SLC caps increase to $8.75 over 3 steps
    - **Pricing Constraint No. 1:** No residential or single line business SLC may exceed the nationwide SLC Cap of $7.25 at Step 1, $8.00 at Step 2, and $8.75 at Step 3.
- **A new common line price cap basket structure will apply to all price cap carriers**
  - The existing common line basket for price-cap carriers will be divided into a Mass Market Service Category and an Enterprise Service Category.
  - SLC price reductions can be offset by SLC price increases within a service category, but cannot be offset by SLC price increases in the other service category.
  - In Steps 1 through 3, the average SLC rates within each cervice category may not be increased by more than the portion of the access shift per line recoverable at each step.

Pricing Flexibility for Price Cap Carriers

Subject to pricing constraints as described in the previous chart, within each Service Category carriers will have the following pricing flexibility:

- **SLC rates may be geographically deaveraged by pricing zone**
  - » **Up to four pricing zones may be created in each State. Each zone must contain at least 15 percent of the lines.**
  - » **Carriers also may use existing State UNE zones**
- **SLC rates may be deaveraged based on customer purchase choice which includes: volume purchase, term commitment, and/or growth commitment.**
- **SLC rates may be deaveraged based on customer segment.**
  - » **A customer segment is a homogeneous group of customers that shares one or more of the following dimensions:**

    1) Customer Class

    2) Pricing Zone

    3) Customer Purchase Choice

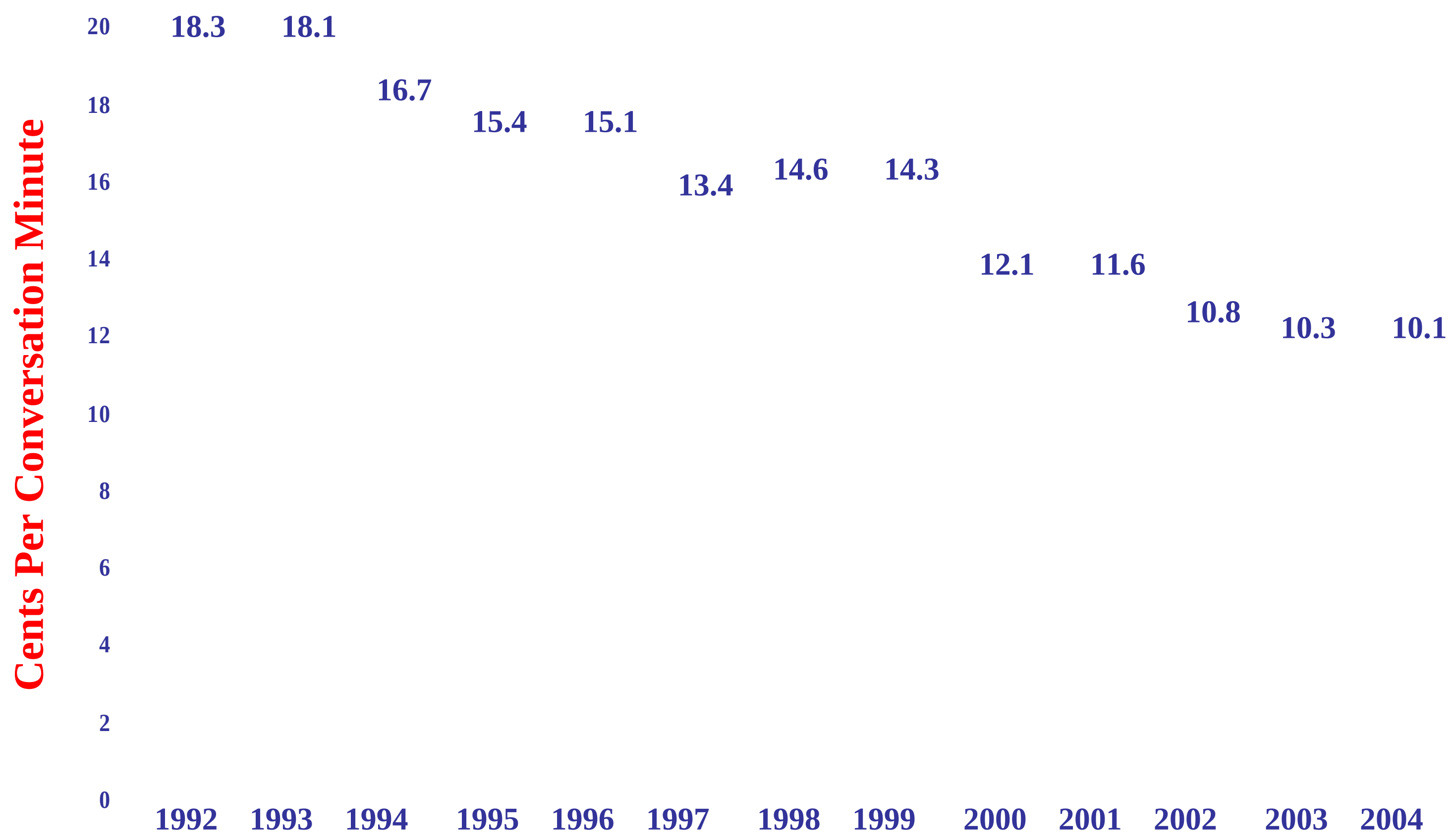
**** THESE SLC RATES MUST MEET THE CONSTRAINTS DESCRIBED IN THE PREVIOUS CHART AND IN NO EVENT CAN SLC RATES FOR A GIVEN TRACK EXCEED THEIR NATIOWIDE CAP ****

"Dialing In" Intercarrier Compensation Reform

	Track 1	Track 2	Track 3
Dial No. 1 --- Intercarrier Rates			
Origination	$0.0045	$0.0095	$0.0171
Termination	$0.0005	$0.0080	$0.0171
Dial No. 2 --- End User Rates			
Interstate SLC cap increases	$3.50/Line/Month	$2.25/Line/Month	$2.25/Line/Month
Dial No. 3 --- Restructure Mechanism		**$1.500B**	
Restructure Mechanism		**$1.500B**	**$0.21**
Early Adopter		**$0.200B**	**$0.03**
Universal Service Fund Adjustments		**$0.525B**	**$0.06**
Additional Lifeline	$0.225B		
High Cost Fund Adjustments	$0.300B		
Total ICR Support		**$2.225B**	**$0.30**

*****Total ICR Support recovered with a monthly (per connection unit) charge*****

Historical Impact of Intercarrier Reform = Consumers Benefit



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
SLC Revenue *	3.4	3.3	3.1	3.0	2.7	2.7	3.3	3.1	3.0	3.3	3.8	3.8	3.8
Revenue Net Access & USF *	9.0	8.9	7.7	7.1	7.5	6.4	7.6	7.8	6.4	6.3	5.2	4.8	4.8
Access & USF Expense *	5.9	5.9	5.8	5.4	4.9	4.4	3.7	3.4	2.6	2.0	1.8	1.7	1.5

* Cents Per Conversation Minute

Creates a Federal Early Adopter Fund

- **Creates a federal Early Adopter Fund for States that have rebalanced intrastate access through explicit state funds**
- **Minimum of $200M provided for the Early Adopter Fund**
- **Missoula Plan supporters commit resources to work with State Commissioners to help size this Fund and determine how it should work when States have rebalanced intrastate access through state funds or local rate increases**

Makes Changes to Existing Universal Service Mechanisms

The Plan makes following changes to existing universal service fund mechanisms:

- **The rural High-Cost-Loop Fund ("HCLF") will be re-indexed based on the current nationwide average cost per loop for rural telephone companies.**
- **The Plan eliminates Commission rules that base a carrier's rural high-cost loop support on the size of the carrier's study areas. Specifically, the Plan modifies Section 36.631 of the FCC's rules.**
- **The Plan establishes a non-rural high-cost-loop support option for certain price-cap carriers.**
- **The Plan will modify the existing Safety Valve I support mechanism.**
- **The Plan will create a supplemental Safety Valve II support mechanism to provide additional revenue recovery for carrier acquisitions.**
- **The Plan provides additional support for low-income consumers by automatically adjusting the Lifeline support to offset changes in SLC rates.**

Missoula Plan supporters are committing resources to work with State Commissions to evaluate how plan mechanisms involving acquisitions can be used to encourage carriers to invest in rural areas.

Safety Valve I Support for Loop Cost

Modifications in Exchanges Acquired by Rural ILECs

- **Buyer will be eligible for support immediately following the acquisition of rural exchanges based on a showing of actual investment in or expenses from operation of the properties.**
- **In the partial year and first full year after the close of a transaction, a rural ILEC will receive Safety Valve I support equal to 75 percent of the difference between its average loop cost for the acquired exchanges and the "baseline loop cost."**
- **In subsequent years, the current rules will apply and the carrier will be eligible for 50 percent of the difference between its average loop cost for the acquired exchanges and the baseline loop cost.**
- **The "baseline loop cost" will be the cost per loop of the seller at the time of the transaction.**
- **The Plan does not change existing Commission rules that cap the amount of Safety Valve funding to 5 percent of the HCLF support distributed to rural ILECs.**

Safety Valve II Support – Non-Loop Expense

- A buyer will be eligible for support immediately following an acquisition.
- The buyer can recover 50 percent of the difference between its "regulated non-loop expense" and the "baseline regulated non-loop expense."
- The "baseline regulated non-loop expense" will equal the seller's "regulated non-loop expense."
- The calculation of support can be made in any year (or partial year) following the acquisition using that year's regulated non-loop expense and baseline expense amounts.
- An exogenous adjustment will be made to the buyer's allowed revenue.
- A carrier cannot increase or decrease its support by refusing to price SLCs at the maximum levels permitted in the Plan.
- Support for newly acquired exchanges will be portable to other ETCs on the same terms as other universal service amounts.
- For the duration of the Plan, Safety Valve II support will not be capped.

Incentive Regulation -- Overview

- **An interstate rate of return carrier may elect to put a study area under incentive regulation.**
- **This is an annual option, by study area.**
- **Once the study area is put under incentive regulation, it cannot go back to rate of return.**
- **The Plan provides for a lower formula adjustment mechanism (LFAM) for companies electing incentive regulation.**
- **Companies choosing to forgo the LFAM are no longer required to do jurisdictional separations studies.**

The Missoula Plan Will Result In Lower Telephone Bills

Customers Total Monthly Bill : Current Rules .vs. Missoula Plan with Per Unit Recovery ($1.27*)

Wireless-High
Wireless- Medium
Wireless-Low
Wireline-Lifeline-High
Wireline-Lifeline-Medium
Wireline-Rural-Medium
Wireline-Rural-Low
Wireline-Urban-High
Wireline-Urban-Medium
Wireline-Urban-Low
Wireline-Urban-Medium with DSL
DSL with VoIP
Cable Modem with VoIP
DSL with VoIP & Wireless

$- $20.00 $40.00 $60.00 $80.00 $100.00 $120.00

Missoula Plan with Per Unit Recovery
Current Rules with Revenue Recovery

*The $1.27 per unit recovery rate is based on Telephone Numbers and Connections. It meets the Missoula Plan principle for recovery mechanisms but it is not part of the Plan. Of the $1.27 , $1.03 is attributable to current universal service programs revised for the Missoula Plan High Cost Loop and Lifeline changes, and $0.24 to the Missoula Plan Restructure Mechanism and Early Adopter Fund. Of the $0.24, $0.21 is associated with the Restructure Mechanism, and $0.03 with the Early Adopter Fund.

The Missoula Plan Will Result In Lower Telephone Bills

Customers Total Monthly Bill: Current Rules .vs. Missoula Plan with Per Unit Recovery ($1.27*)

	Customer Type	Current Rules with Revenue Recovery 10.5% on Revenue	Missoula Plan with Per Unit Recovery $1.27 per Unit*	Net Change
1	DSL with VoIP & Wireless	$ 107.65	$ 106.54	-1.11
2	Cable Modem with VoIP	$ 66.70	$ 66.27	-0.43
3	DSL with VoIP	$ 55.70	$ 55.27	-0.43
4	Wireline-Urban-Medium with DSL	$ 69.68	$ 69.34	-0.34
5	Wireline-Urban-Low	$ 33.17	$ 35.22	2.05
6	Wireline-Urban-Medium	$ 40.68	$ 40.34	-0.34
7	Wireline-Urban-High	$ 83.62	$ 69.62	-14.00
8	Wireline-Rural-Low	$ 29.72	$ 31.22	1.50
9	Wireline-Rural-Medium	$ 40.45	$ 38.54	-1.91
10	Wireline-Lifeline-Medium	$ 15.65	$ 13.94	-1.71
11	Wireline-Lifeline-High	$ 42.49	$ 32.24	-10.25
12	Wireless-Low	$ 31.17	$ 31.27	0.10
13	Wireless- Medium	$ 51.95	$ 51.27	-0.68
14	Wireless-High	$ 103.89	$ 101.26	-2.63

* The $1.27 per unit recovery rate is based on Telephone Numbers and Connections. It meets the Missoula Plan principle for recovery mechanisms but it is not part of the Plan